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SUBJECT: Developing Aqaba - The Gateway to Jordan

REFS: A) 04 Amman 2554; B) 04 Amman 2553

¶1. (SBU) SUMMARY: During a May 2-3 trip to Aqaba, the Ambassador discussed the significant achievements in development of the Aqaba Special Economic Zone (ASEZ) with local officials, shipping agents, students, young entrepreneurs, scientists, and environmental activists. The private sector has invested over US\$2 billion in large scale projects in real estate, airport services, logistics, and the container port in Aqaba in recent years. A pending project to relocate the main port further south and turn the current property into a commercial and residential waterfront has lagged, however, due to contract issues with the Jordan Phosphate Mining Company. While economic growth has been the driving force in Aqaba, local authorities recognize the need to ensure parallel social development, address environmental issues, and build the necessary infrastructure to support fast-paced development. Following the motto "Build It, and They Will Come," the Aqaba Development Corporation is positioning Aqaba to become a logistical hub that will attract more business and investment, particularly in the shipping industry which is feeling the impact of a drop in the transit trade with Iraq. End Summary.

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Background  
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¶2. (U) As described in reftels, the Aqaba Special Economic Zone is a 375 square kilometer area launched in 2001 as a duty-free, low tax multi-sectoral development zone. It encompasses 27 kilometers of coastline, Jordan's only sea port and container port, King Hussein International Airport, and the city of Aqaba with about 100,000 people. The Aqaba Special Economic Zone Authority (ASEZA) manages and regulates municipal functions for the zone; as a decentralized agency, it enjoys relative autonomy from Amman, although any surplus in ASEZA's budget returns to the federal treasury. The Aqaba Development Corporation (ADC), a private shareholding company owned by ASEZA and the GOJ, has the mission of implementing the King's vision of turning the area into a leading leisure and business hub.

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Development Moving Forward  
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¶3. (SBU) In a meeting with the Ambassador, ADC's CEO Imad Fakhoury enthusiastically endorsed the scale of development plans in Aqaba as "realistic" and achievable over the next 20 years. Comparing ADC to the New York/New Jersey Port Authority, he said that ADC was able to manage the initial challenge of building its departments and people, experiencing lower than expected turn-over. With development plans underway and largely financed by the private sector on a Build-Own-Transfer (BOT) basis, he expected ADC to receive a "death certificate" in ten years or possibly transform itself into a monitoring body.

¶4. (U) Fakhoury noted that the private sector has invested over US\$2 billion in projects in real estate, ports, the southern industrial zone, and the airport since 2001, and projected that investment in Aqaba will continue to grow to least US\$3.8 billion. Investment projects have included a \$700 million public-private partnership to upgrade and expand the container port, whose now-streamlined operations were taken over by the Danish company APM Terminals. The Tala Bay, Saraya, and Ayla real estate development projects are under way with the goal of turning Aqaba into a resort destination that rivals neighboring Red Sea resorts. A Logistics Village (USD 70 million) was launched through a BOT 21-year concession agreement with Jordan's Kawar Group and Agility/OPM Singapore. A newly constructed 70,000 square meters warehousing facility is also ready for use.

¶5. (SBU) Fakhoury spoke proudly of the "world class," open skies air airport in Aqaba, which is currently managed by Aqaba Airport Corporation, a subsidiary of ADC, and earmarked for privatization in ¶2007. He also highlighted a new cargo terminal that he hopes will attract more traffic to and from Iraq. The airport lost US\$2 million initially, he said, but he expects it to go into the black in 2007. Fakhoury also mentioned that the airport lost cargo shipments to Turkey and the UAE when Russian aircraft were denied entry due to noise levels. Although an exemption was eventually given, Aqaba's airport lost credibility with the market in Fakhoury's view.

#### Relocation of the Port Stuck

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¶6. (SBU) ADC's biggest challenge right now, according to Fakhoury and Acting ASEZA Commissioner Dr. Bilal Bashir, is relocating the main port further south to increase port capacity and turn the current property into a cruise terminal and commercial and residential waterfront, similar to those in Baltimore or Boston. Fakhoury commented that the 300 hectares of port land represent the most strategic real estate holding today in Jordan, and will be sold to the highest bidder to subsidize the port relocation.

¶7. (SBU) Fakhoury said that the project is currently stuck due to legal issues with the Jordan Phosphate Mines Company (JPMC), whose lead investor is the Sultan of Brunei. He lamented that JPMC's contract with the Government of Jordan (GOJ) gives the JPMC the upper-hand, and said he will need to hold tough negotiations lasting at least two to three months in order to gain agreement on moving the berths. Another bone of contention for Fakhoury is that the GOJ set fixed tariffs for the JPMC for ten years, after which time tariffs can only be raised by the rate of inflation.

#### Are Aqabites Benefiting?

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¶8. (SBU) During a meeting with the Ambassador, MP Mohammed Al Badri addressed concerns of long-term residents of Aqaba. Al Badri complained that development and investment in Aqaba, before and during the ASEZA regime, was not benefiting Aqabites. ASEZA hired few locals, and complained that they lack the skills needed in the job force. Aqaba was becoming divided, he said, and he urged the Embassy to encourage greater community development efforts by AZESA in the future. Specifically he mentioned inadequate schools, lack of a single university in the area, and the need for a full service hospital (the Islamic Center Society is building a new Islamic hospital next to the old public hospital - underscoring what Al Badri considered insufficient social spending in Aqaba).

#### Economic and Social Development

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¶9. (SBU) The Ambassador raised Badri's concerns with the Acting Commissioner for ASEZA, Dr. Bilal Bashir. The Commissioner responded that there are two tracks of development in Aqaba - economic and social. While economic development might be the driving force, Bashir reassured the Ambassador that ASEZA is not ignoring social needs such as upgrading schools and ensuring housing for people who are expected to be relocated from the poor community of Shalala by the end of the year.

¶10. (U) Instead of seeing real estate as a get-rich-quick prospect, investors are showing increasing interest in corporate social responsibility (CSR) programs that develop the workforce and benefit their businesses, Bashir said. Fakhoury also highlighted community development as a priority, noting that ADC has its own CSR department that works with the Jordan River Foundation. ADC is implementing programs in health care, women's empowerment, and education, including \$1.5 million in scholarships for 60 students from the poorer old city. He expressed interest in starting up an American University in Aqaba, and the Ambassador suggested looking at some U.S. universities that might be interested in starting branches in Jordan.

¶11. (SBU) Bashir believes that there are job opportunities for the unemployed in Aqaba, but people remain resistant. ASEZA established an employee center to help match employers with job-seeking candidates. USAID is also providing assistance through vocational training for entry-level jobs, such as for cooks and waiters, and through university-level courses on the tourism and hospitality sector.

¶12. (U) The Ambassador met with approximately 20 students and graduates of the USAID-funded NAJAH program that connects out-of-school young people to their community and the economy. The participants reflected on how the program gave them confidence, taught them basic job interviewing skills, and changed their perception of their role in society. Some noted that they did not know of the job opportunities available in Aqaba before the program, and appreciated the chance to meet prospective employers. Others who previously thought some of the jobs were not good enough for them are now enjoying new-found employment in hotels and restaurants.

¶14. (SBU) Bashir thanked the Ambassador for all the support that the USG has provided the zone over the years through USAID. He reiterated the fact that ASEZ is at a critical juncture and that there should be no break in USG assistance provided by USAID programs.

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Other Challenges to Development  
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Infrastructure - Electricity and Water  
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¶15. (SBU) The capacity of the infrastructure, particularly the electrical grid, to support further development in Aqaba remains a challenge. In addition to a USAID study on water, electricity and housing that is near completion, Spain is providing a grant to do a master plan on electricity requirements. Fakhoury mentioned the need to think strategically about outsourcing municipal services.

¶16. (U) The Ambassador discussed with Bashir the pressure that economic growth in Aqaba has placed on water resources. In particular, the conversation focused on the need to use water from the nearby Disi aquifer efficiently. Disi is a fossil aquifer that serves as Aqaba's main source, currently supplying 17 million cubic meters (MCM) annually. Bashir indicated that Aqaba has just received permission to increase its withdrawal from Disi to 35 MCM annually.

¶17. (U) The Ambassador inaugurated a USAID-funded urban landscaping project that reuses treated wastewater. Efforts to demonstrate treated wastewater applications in urban, industrial, and agricultural landscapes have dramatically influenced public acceptance of the technology that allows for greater efficiency of

Jordan's scarce water resources. Purple irrigation pipe, signifying treated wastewater, can now be seen all over Aqaba. The Jordan Phosphate Company in Aqaba is currently using large quantities of treated wastewater in their applications. Today, Jordan uses approximately 83 million cubic meters of treated wastewater in urban, agricultural, and industrial applications.

#### Environmental Issues

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¶18. (U) During a visit to Aqaba's Marine Science Station (MSS), where USAID has provided grants through the Middle East Regional Cooperation (MERC) program to do research on the health of the marine environment, MSS Director Marouf Khalaf indicated that the bio-diversity of Aqaba's coral reef rivals that of the Great Barrier Reef. Although Bashir commented that Aqaba is cleaner than it used to be, most interlocutors in Aqaba expressed concern about the negative impact of development on marine life.

¶19. (U) While pointing out the rich coral reef through a glass-bottom boat, Fadi Sharaiha, Executive Director of the Royal Marine Conservation Society, noted that a team of 75 divers recently collected two tons of trash within 30 minutes, and voiced concern about the port relocation damaging the virgin reef in the south. Fakhoury acknowledged that moving the port south will do some damage to the coral reefs, and said he plans to hold a town hall meeting in mid-May to reassure environmental activists and the public of his commitment to maintaining international environmental standards. According to Fakhoury, ADC has funded studies on coral, and intends to create an environmental fund to transplant coral. The Ambassador also suggested that a public awareness campaign might help address some of the environmental issues created by an expanding tourism industry.

#### Shipping Industry Ready to Take on More

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¶20. (U) The Board of the Shipping Agents Association met with the Ambassador to discuss current challenges in the shipping industry. Chairman Rudain Kawar noted that the Association enjoys good relations with the ADC, with whom it has worked as a strategic partner in privatizing the Marine Services Company and developing the new Logistics Village. Kawar painted a positive picture of Aqaba as the "Gateway to Jordan" and potential logistical hub for the Levant. He noted that Aqaba has traditionally been an in-bound port, which ultimately makes imports more expensive given that the containers leave Jordan empty.

¶21. (SBU) Kawar acknowledged that three years ago, the container port was in bad shape and poorly managed. At one point, ships were forced to wait for nine days at port, causing significant congestion and ship surcharges. Since APM Terminals took over, he said, the port has dramatically improved, experiencing minimum shut-downs and delays.

¶22. (SBU) Kawar asked that the USG encourage the use of Aqaba with U.S. buyers as a shipping option for products coming out of the Qualifying Industrial Zones (QIZs). He said that the shipping time from Aqaba to the United States has now been cut to 20-21 days, making it more competitive with the 18-day direct line from Haifa to New York. In fact, Kawar indicated that Aqaba ended up shipping about 250 containers per week when Haifa service was interrupted during the 2006 conflict in Lebanon. The upgraded container port, cheaper services, and improved customs operations, he argued, are selling points for Aqaba. NOTE: In subsequent discussions with Econoff, several investors in the Al-Hassan QIZ indicated that they have only recently become aware of the improved shipping times, and while they agree that Aqaba would be the more economical and desirable option, they said that shipping agents need to do a better job of selling their services and rebuilding trust. END NOTE.

#### Drop in Transit Trade from Iraq

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¶23. (U) Kawar indicated that in the past three months, there has been a drop in cargo of about 12% that has only recently begun to pick up. He opined that this is due to a general market slowdown

and lack of liquidity for traders importing goods, as well as rising inflation of 6.4%.

¶24. (SBU) In general, Kawar believes the container port is underused, particularly in serving Iraq. Kawar commented that the transit trade with Iraq has dropped significantly. While this is in part due to security, he noted that conditions in Iraq's western province of Al-Anbar have improved over the last six months. In a separate meeting, Fakhoury also confirmed that it is difficult for Iraqis to drive into Aqaba, as the Army officers at check-points are strict and have difficulty distinguishing between legitimate business and security threats. Many Iraqis, Kawar added, are now leaving Jordan because the GOJ is not renewing their residency permits. Some of the shipping agents commented that this was a mistake, given the positive contributions that many Iraqis have made to Jordan's economy. The Ambassador assured the group that USG is working with the Jordanian Government to balance security, business and humanitarian priorities.

#### Competition from Syria

¶25. (SBU) Kawar also argued that Aqaba is losing bulk cargo business to Syria. In particular, he commented that Suez Canal rates - i.e., \$4.75 per ton or \$100,000 per cruise vessel - make the Aqaba route uneconomical to some businesses, mainly for cargo coming from the Black Sea and cruise vessels. As an alternative, Kawar said companies are choosing to truck cargo by land through Syria, because Jordan has an axle weight maximum of 20 tons per truck, whereas Syria can ship as much as 60 tons per truck. He asked whether the USG could assist in persuading the Egyptian government to lower Suez fees for cargo destined for Jordan.

#### Slow Industrial Growth

¶26. (U) Fakhoury noted that industrial growth in Aqaba has been slow. The one textile factory shut down after its owner died. There is a bid out for a sugar refinery, but the feasibility of the sugar industry in Aqaba is questionable. Fakhoury also mentioned that the Arab Free Trade Agreement does not apply to the Aqaba Special Economic Zone, so investors tend to establish factories outside Aqaba.

#### Comment

¶27. (SBU) ASEZA and ADC have made significant progress in moving forward development plans to turn this once sleepy port town into a bustling tourist and commercial center. The local authorities seem more in-tune with community needs today than in years past, although they admit that more needs to be done to bring social development in line with economic growth and ensure that Aqabites benefit from investment. Continued USAID assistance will be crucial in this regard.

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